

Message Text

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAJ-01 AGR-05 /092 W

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R 311430Z DEC 75

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 5133

INFO AMCONSUL ZAGREB

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E.O. 11652: N/A

TAGS: ECON, EFIN, EGEN, YO

SUBJECT: YUGOSLAV ASSEMBLY ADOPTS 1976 SOCIAL ECONOMIC PLAN AND
1976 FEDERAL BUDGET

SUMMARY: AS EXPECTED, YUGOSLAV ASSEMBLY ON DECEMBER 24 ADOPTED 1976 RESOLUTION ON YUGOSLAVIA'S SOCIAL AND ECONOMIC PLAN AND 1976 FEDERAL BUDGET. ECONOMIC GOALS FOR NEXT YEAR, INCLUDING 5.5 INCREASE IN SOCIAL PRODUCT AND 6 PERCENT GROWTH IN INDUSTRIAL PRODUCTION, APPEAR REALISTIC, REFLECTING COMPROMISE BETWEEN STABILIZATION AND GROWTH IMPERATIVES WITH SOME BIAS TOWARD STABILIZATION. FEDERAL BUDGET SET AT ABOUT 79 BILLION DINARS (COMPARED WITH 60 BILLION DINARS IN 1975) AND WILL INCLUDE DEFICIT ITEMS, CONTRARY TO EARLIER REPORTS THAT BOND SALES AND NATIONAL BANK LOANS WOULD BE ELIMINATED FROM BUDGET. ACCORDING PRELIMINARY REPORTS, DEFENSE EXPENDITURES WILL RISE ONLY MODESTLY IN 1976 AND ACCOUNT FOR ABOUT 40 PERCENT OF TOTAL FEDERAL BUDGET COMPARED WITH ABOUT 50 PERCENT IN 1975.

END SUMMARY.

1. AFTER LENGTHY DEBATE, INCLUDING SATURDAY AND SUNDAY MEETINGS, YUGOSLAV ASSEMBLY ON DECEMBER 24 FORMALLY ADOPTED 1976 RESOLUTION ON COUNTRY'S SOCIAL AND ECONOMIC DEVELOPMENT. ECONOMIC GOALS IN

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RESOLUTION APPEAR MORE REALISTIC THAN THOSE IN PREVIOUS YEAR'S,

PROBABLY REFLECTING COMPROMISE BETWEEN STABILIZATION AND GROWTH IMPERATIVES WITH EMPHASIS ON STABILIZATION AS NECESSARY PRE-CONDITION TO EFFICIENT ECONOMIC PERFORMANCE. FULL TEXT OF PLAN IS NOT YET AVAILABLE; HOWEVER ABUNDANT PRESS COMMENT AND DISCUSSION WITH YUGOSLAV ECONOMIC OFFICIALS PROVIDE SUFFICIENT INFORMATION FOR PRELIMINARY ASSESSMENT.

2. REPORTEDLY MAJOR EMPHASSES FOR 1976 INCLUDE (A) MORE EFFECTIVE RESTRUCTURING OF INVESTMENT SPENDING TOWARD PRIORITY SECTORS OF ENERGY, FOOD, BASIC RAW MATERIALS, TRANSPORTATION AND TOURISM -- 1976 PLAN REPORTEDLY DEFINES PRIORITY ACTIVITIES WITHIN THE PRIORITY SECTORS; (B) MAINTENANCE OF GROWTH OF INDUSTRIAL PRODUCTION AT ABOUT 6 PERCENT SUPPORTED BY POSSIBLY NEW CREDIT FACILITIES FOR DOMESTIC SALES OF YUGOSLAV MANUFACTURED EQUIPMENT AND SHIPS; (C) INCREASED STIMULATION OF EXPORTS, A DECREASE IN EQUIPMENT IMPORTS, AND A CONTINUED "LINKING IMPORTS TO EXPORTS" AS BASIS FOR FOREIGN TRADE POLICY; (D) HOLDING 1976 BALANCE OF PAYMENTS DEFICIT TO UNDER \$1 BILLION; (E) RESTRICTING GROWTH OF PUBLIC REVENUES TO LESS THAN THE INCREASE IN SOCIAL PRODUCT; (F) ENSURING REAL GROWTH IN PERSONAL INCOMES AND STANDARD OF LIVING, PARTICULARLY STIMULATION OF GREATER HOUSING CONSTRUCTION; (G) FASTER GROWTH OF UNDERDEVELOPED REGIONS, PARTICULARLY KOSOVO; (H) INCREASING LABOR PRODUCTIVITY; AS EXPECTED EMPLOYMENT GOAL IS RATHER LOW 3 PERCENT (COMPARED WITH OVER 5 PERCENT REALIZED EMPLOYMENT GROWTH IN 75) IN EFFORT TO BOOST PRODUCTIVITY).

3. QUANTITATIVE ECONOMIC GOALS FOR 1976 INCLUDE:

- A. 5.5 PERCENT GROWTH OF SOCIAL PRODUCT
- B. 6 PERCENT RISE IN INDUSTRIAL PRODUCTION
- C. 4 PERCENT GROWTH IN AGRICULTURAL PRODUCTION
- D. 2.5 - 3.5 PERCENT GROWTH IN LABOR PRODUCTIVITY
- E. 3 PERCENT INCREASE IN EMPLOYMENT
- F. 8 PERCENT RISE IN INVESTMENT SPENDING IN ECONOMIC SECTOR
- G. 6.5 PERCENT INCREASE IN EXPORTS
- H. 3 PERCENT INCREASE IN IMPORTS
- I. 5.2 PERCENT RISE IN PERSONAL INCOMES.

4. ALTHOUGH 1976 RESOLUTION WAS ADOPTED ON SCHEDULE, INDICATIONS ARE THAT BOTH PROCEDURAL AND SUBSTANTIVE ISSUES PRESENTED ASSEMBLY WITH DIFFICULTIES IN REACHING CONSENSUS ON THE PLAN. PROCEDURAL LIMITED OFFICIAL USE

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PROBLEM, ENDEMIC HERE, IS REQUIREMENT OF UNANIMITY AMONG THE REPUBLICS AND PROVINCES BEFORE MAJOR DECISIONS CAN BE TAKEN -- IN THIS REGARD, POLITICALLY WELL-CONNECTED BUSINESS CONTACT TOLD EMBASSY THAT AT ONE POINT IN DEBATE, A REPUBLICAN REPRESENTATIVE (UNNAMED) SAID FLATLY HIS REPUBLIC DID NOT LIKE IMPORTANT PARTS OF PLAN AND THEREFORE WOULD NOT AGREE TO ITS ADOPTION. CONTACT IMPLIED THIS TYPE OF BEHAVIOR, IF NOT THIS PARTICULAR INCIDENT, PROBABLY CONTRIBUTED TO TOUGHNESS OF TITO'S SPEECH AT 15TH LCY

PRESIDIUM.

5. ECONOMIC WEEKLY, EKONOMSKA POLITIKA, DECEMBER 22, 75, SET OUT
SOME OF SUBSTANTIVE DIFFICULTIES INVOLVED IN DRAWING UP 1976 PLAN,
PARTICULARLY NOTING "CART BEFORE HORSE" DILEMMA IN THAT 1976 PLAN
WAS CONSIDERED PRIOR TO AGREEMENT ON MEDIUM-TERM 1976-80 PLAN OF

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CIEP-01 LAB-04 SIL-01 OMB-01 SAJ-01 AGR-05 /092 W

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WHICH 196 RESOLUTION WAS LOGICALLY TO FORM A PART. ECONOMSKA
POLITIKA IDENTIFIED THREE PROBLEM AREAS RESULTING FROM FAILURE TO
AGREE ON MEDIUM-TERM PLAN IN ADVANCE OF 1976 PLAN:

(1) SPECIFIC IDENTIFICATION AND ADEQUATE SUPPORT OF PRIORITY
SECTORS AND PROJECTS -- WHILE 1976 PLAN CONTAINS VERY SPECIFIC LIST
OF PRIORITY SECTORS AND BRANCHES; PROJECTS INVOLVE LONG-TERM
INVESTMENT COMMITMENTS THAT CANNOT BE VARIED EASILY FROM YEAR TO
YEAR. IMPLICATION HERE IS THAT UNLESS PRIORITY SECTORS AND PROJECTS
CAN BE ASSURED OF PRIORITY TREATMENT OVER SEVERAL YEARS' PERIOD,
IT MAY BE DIFFICULT ENSURE SUFFICIENT INVESTMENT IN THOSE AREAS.

(2) ESTABLISHING LEVEL OF PUBLIC EXPENDITURES AND SOCIAL
SERVICES - FEC HAD WANTED TO LIMIT THEIR GROWTH IN 1976 TO 12.5
PERCENT BUT REPUBLICS AND PROVINCES DISAGREED, AND FINAL DRAFT
REPORTEDLY CALLS FOR HOLDING THEIR RATE OF GROWTH TO LESS THAN THE
RATE OF GROWTH IN SOCIAL PRODUCT.

(3) PROVIDING RESOURCE TRANSFERS FOR MORE RAPID DEVELOPMENT

OF UNDERDEVELOPED AREAS, ESPECIALLY KOSOVO -- 75 LAW ON FINANCING THESE REGIONS WAS EXTENDED THROUGH 76 OR UNTIL NEW LEGISLATION IS ENACTED, ALTHOUGH ACCORDING TO PRESS, FEC IS TO ATTEMPT TO SECURE ADDITIONAL FUNDS FOR TRANSFER TO KOSOVO.

EKONOMSKA POLITIKA SUGGESTS ALL THESE DECISIONS WERE STOP-GAP MEASURES REQUIRING CONSIDERABLE DEBATE AND IN EACH CASE DEBATE LIMITED OFFICIAL USE

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AND DISAGREEMENT WILL BE RENEWED WHEN MEDIUM-TERM PLAN FINALLY IS CONSIDERED.

6. AS IN PAST 1976 PLAN IS INDICATIVE AND CARRIES NO ADMINISTRATIVE AGRQEGCEMENT MECHANISMS, ALTHOUGH TITO'S SPEECH TO 15TH SESSION AS

LCY PRESIDIUM SUGGEST PARTY MEMBERS WILL BE UNDER GUN TO ENSURE IMPLEMENTATION OF MAJOR ECONOMIC POLICIES. 1976 RESOLUTION ON MONETARY AND CREDIT POLICY, A PRIME VEHICLE OF SUPPORT FOR PLAN, IS FORECAST TO BE APPROVED BY END OF JANUARY AND EMBASSY HAS BEEN TOLD IT WILL PROVIDE NATIONAL BANK AND COMMERCIAL BANKS' AUTHORITY TO FINANCE DOMESTIC SALE OF YUGOSLAV EQUIPMENT AND SHIPS, AS WELL AS EXPAND EXPORT CREDITS, AND WORK TOWARD OVERALL STABILIZATION BY TARGETING MONETARY GROWTH NEXT YEAR AT ABOUT 17 PERCENT (COMPARED WITH 27 PERCENT REALIZED IN 75). WHILE PRESS ACCOUNTS OF 76 PLAN HAVE

NOT MENTIONED PRICE GOALS, SENIOR OFFICIALS OF NATIONAL BANK AND SECRETARIAT OF MARKETS AND PRICES HAVE TOLD EMBASSY INTENTION IS TO CUT 75 RATE OF INFLATION IN HALF AND FIGURES OF 10 PERCENT AND 12 PERCENT HAVE BEEN MENTIONED.

7. FEDERAL ASSEMBLY ALSO ADOPTED 76 FEDERAL BUDGET AMOUNTING TO 79.237 BILLION DINARS (COMPARED TO ABOUT 60 BILLION DINARS IN 75). ACCORDING TO BORBA, DECEMBER 25; 36,122 BILLION DINARS WILL BE PROVIDED BY FEDERAL GOVERNMENT (MOSTLY FROM CUSTOMS DUTIES) 33,374 BILLION WILL BE CONTRIBUTED BY REPUBLICS AND PROVINCES (MOSTLY FROM TURNOVER TAX RECEIPTS). NATIONAL BANK CREDITS OF 6.741 BILLION AND FEDERAL BOND SALES OF 3 BILLION DINARS WILL COVER REMAINDER.

8. NATIONAL BANK LOANS AND BOND SALES APPEAR IN BUDGET DESPITE EARLIER STATEMENTS FROM FEDERAL AUTHORITIES, INCLUDING BIJEDIC, THAT 1976 BUDGET WOULD NOT CONTAIN DEFICIT ITEMS. APPARENTLY REPUBLICS AND PROVINCES SUCCESSFULLY ARGUED THEY COULD NOT INCREASE THEIR CONTRIBUTIONS WITHOUT FURTHER OVER-TAXING ECONOMIC ACTIVITIES, AND CONSEQUENTLY DEFICIT ITEMS WERE RELUCTANTLY RESTORED.

9. ACCORDING VIJESNIK, DECEMBER 25, DEFENSE PORTION OF 76 BUDGET WILL BE ABOUT 32 BILLION DINARS, APPROXIMATELY 40 PERCENT OF TOTAL BUDGET (COMPARED WITH ABOUT 29 BILLION DINARS OR ABOUT 50 PERCENT 75 BUDGET). PRESS REPORTS INDICATE YUGOSLAV MILITARY MAY NOT BE COMPLETELY

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SATISFIED WITH LEVEL OF 1976 FUNDING. BORBA, DECEMBER 6, 75,
CARRIED REMARKS OF COL. GEN. SUMONJA, DEPUTY FEDERAL SECRETARY OF
NATIONAL DEFENSE, WHO, INTER ALIA, SAYS "THE NEEDS OF JNA IN 1976
ARE OBJECTIVELY GREATER THAN THE FUNDS ENSURED IN THE BUDGET" AND
"THE PLAN OF THE DEVELOPMENT OF THE ARMED FORCES FROM 1976 TO 1980
WILL REQUIRE SUPPLEMENTARY FUNDS AND IT WILL BE NECESSARY TO DETERMINE

THIS WHEN ADOPTING THE SOCIAL PLAN" (1976-1980). EKONOMSKA POLITIKA,
DECEMBER 22, CARRIES FEATURE STORY ON JAN THAT MAKES CLEAR THAT
MODERNIZATION OF ARMY DEPENDS SIGNIFICANTLY ON GREATER ECONOMY
AND BETTER ORGANIZATION AND NOT ON SETTING ASIDE A LARGER AMOUNT
OF GNP FOR DEFENSE SPENDING. SAME ARTICLE STRONGLY SUGGESTS COST
EFFECTIVENESS AS BUDGETARY TECHNIQUE IS REQUIRED THROUGHOUT JNA.
(FYI: YUGOSLAV DEFENSE BUDGET IS NORMALLY SET IN THE MEDIUM-
TERM PLAN AS SOME CONSTANT PERCENTAGE OF SOCIAL PRODUCT, I.E.,
ABOUT 5.83 PERCENT -- ABSENCE OF AGREED MEDIUM-TERM PLAN 1976-1980
(SEE PARA 5) MAY HAVE ALSO AFFECTED DEFENSE APPROPRIATIONS FOR
NEXT YEAR. END FYI.)

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, VOTING, ECONOMIC PROGRAMS, SOCIAL CHANGE, CENTRAL LEGISLATURE
Control Number: n/a
Copy: SINGLE
Draft Date: 31 DEC 1975
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BELGRA06840
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760001-0022
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975122/aaaaabmh.tel
Line Count: 247
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 02 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 JUL 2003 by MartinML>; APPROVED <10 JUL 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: YUGOSLAV ASSEMBLY ADOPTS 1976 SOCIAL ECONOMIC PLAN AND 1976 FEDERAL BUDGET
TAGS: ECON, EFIN, EGEN, YO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006